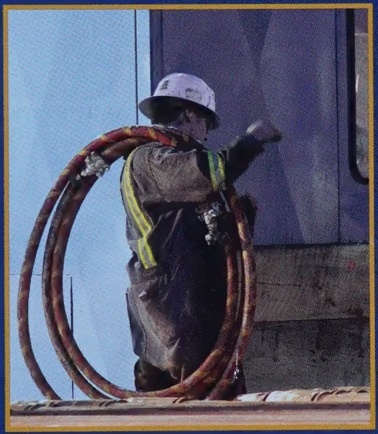
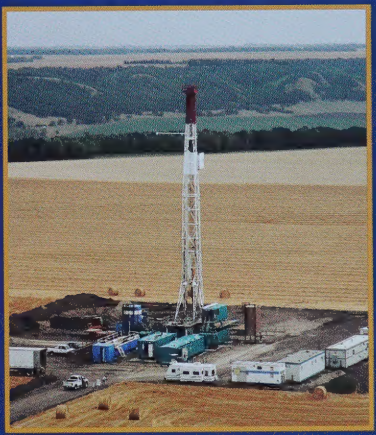
raising the bar





PEOPLE **INVESTMENTS** **ASSETS**

TRINIDAD ENERGY SERVICES INCOME TRUST

ANNUAL REPORT 2005

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ANNUAL GENERAL MEETING

The Annual General of Unitholders will be held at 3:00 PM MDT on Thursday, May 4, 2006 in the Viking Room, Calgary Petroleum Club located at 319 – 5th Avenue SW, Calgary Alberta. Shareholders and other interested parties are encouraged to attend.

FORWARD-LOOKING STATEMENTS

From time to time Trinidad makes written and oral forward-looking statements. These may be included in the Annual Report, filings with Canadian regulators in reports to shareholders and other communications. These forward-looking statements include but are not limited to comments with respect to objectives and strategies, financial condition, results of operations, the outlook for the industry and risk management discussions. By their nature these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. Forward-looking statements may be influenced by the level of exploration and development activity carried on by customers, commodity prices, weather, access to capital markets and government policies. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Trinidad increased its monthly distribution three times over the 2005 fiscal year from $0.72 cents per unit to $1.02 cents per unit, an increase of 41.7%. Distributions to unitholders are managed to achieve a 75% payout ratio goal of cash flow before change in non-cash working capital on an earned basis, and the remainder is retained for future growth opportunities or debt repayment. Growth through acquisitions and the rig construction program enabled the Trust to achieve significant growth in cash flow which it was then able to distribute to unitholders. During the year ended December 31, 2005 Trinidad distributed $51.9 million dollars, an increase of $28.2 million, or 119% from the prior year.

1.02

$1.02 cents per unit ending distribution rate

124% growth in cash flow from operations

124

2005 saw tremendous growth for the Trust through the successful integration and operation of previous acquisitions and the completion of five new diesel electric rigs which were announced in the prior year. These expansions, coupled with the acquisitions completed in the current year have combined to more than double cash flow for 2005, increasing cash flow from operations by 124%. Strong demand across the oilfield service sector created advantageous working conditions and Trinidad executed on these opportunities to provide growth to unitholders. Throughout 2006 the Trust will continue to actively pursue these opportunities.

message to unitholders

OVERVIEW

The oil and gas industry experienced strong commodity pricing during 2005 which caused activity levels to be very high. Tight supply demand fundamentals for both oil and gas translated into record levels of drilling activity. Trinidad responded to these market conditions by undertaking one of the largest client sponsored construction programs ever pursued within the industry. This construction program was focused on providing deep drilling capacity rigs to Trinidad clients. The industry recognized both Trinidad's expertise as a contractor within this market as well as its ability to perform for its clients.

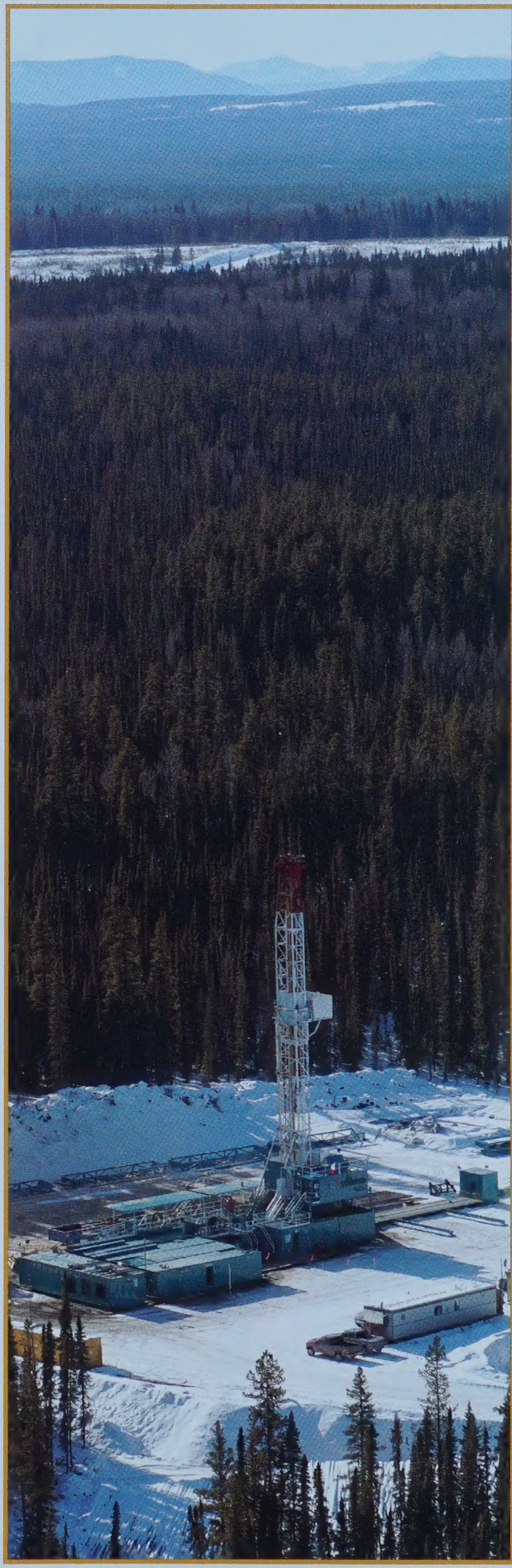
STRATEGY

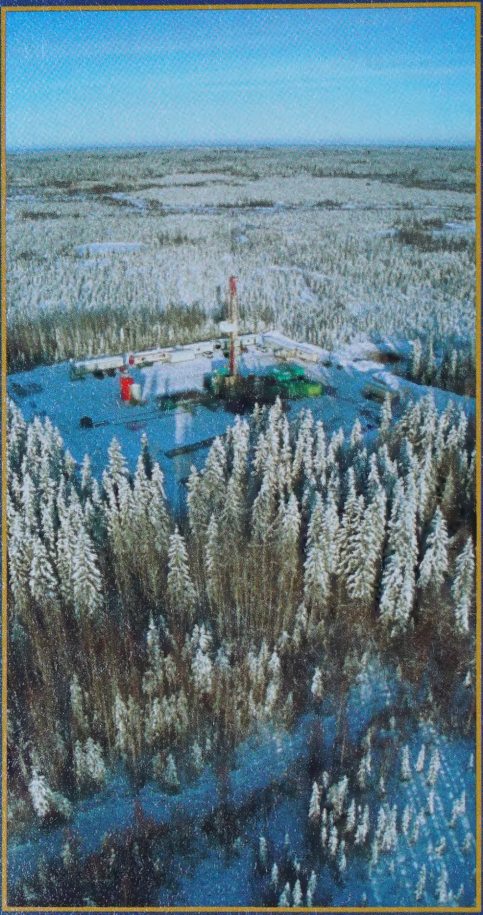
In the past year, Trinidad has accomplished some truly amazing things that have fundamentally changed the face of the Trust. As we entered 2005 our strategy was to continue with our business model of focused accretive growth. In addition, we wanted to target investments that not only added to overall cash flow and distributions, but also added to the stability of that cash flow. We sought to invest capital into projects or acquisitions that provided geographical or asset diversification and added to the overall stability of cash flow. At the same time we made sure we stayed true to our operating and business philosophies. Simply put this philosophy is "performance first" - performance in terms of operations, people, technology, safety and customer satisfaction. We are still very conscious that these principles have allowed Trinidad to enjoy tremendous success in the past.

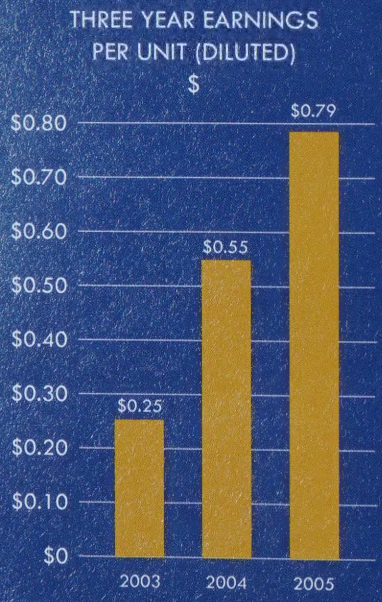
DRILLING

In 2005 we pursued and executed on several key initiatives and market driven investments for our unitholders. The first significant investment was the capital build program for expansion into the United States. This program which consists of 17 new rigs, including those announced in January 2006, were some of the first take-or-pay contracts signed in the United States in a number of years. This customer supported build program gave Trinidad the critical mass required to embark on an expansion into the US market.

The program was executed throughout 2005 and in December Trinidad completed a key strategic acquisition, Cheyenne Drilling LP. The Cheyenne Drilling group brought instant infrastructure, management expertise, market knowledge and a geographically diverse customer base to Trinidad's operations. As well, the Cheyenne group provided experienced crews and operating history that together with other key management additions will ensure successful completion of the capital build program.







In addition to the US build program, Trinidad also pursued a new construction program for Canada adding 12 new rigs to the fleet in 2005 and into 2006. The new rigs were again all client sponsored with committed days and day rates for two to five year terms. The capital programs in the United States and Canada will provide our unitholders with significant growth in cash flow and distributions. Trinidad will exit 2006 with approximately 101 drilling rigs of which approximately 30% will be tied to long term take-or-pay contracts at the completion of the construction program. In addition, almost 40% of overall cash flow will be from US operations where the operating environment will provide for better utilization and more stable cash flow due to reduced susceptibility to the seasonal conditions present in Canadian operations.

WELL SERVICING DIVISION

In the well servicing division Trinidad continued with its plan of expansion into deeper focused well servicing operations. Trinidad Well Servicing acquired Summit Well Servicing in 2005 as an integral part of this strategy. In the last year this division disposed of non-core assets and invested in assets that provide stronger margins and improved utilization. The focus was to develop assets and expand the customer base to the right market segment of the well servicing market. The well servicing division focused on deeper more advanced rigs with a more sophisticated client base, much the same as Trinidad follows with its drilling operations. These assets command higher rates and provide additional barriers to entry in terms of capital and operational expertise. This investment approach has provided stronger margins and returns on capital and positioned the well servicing division for further expansion into 2006.

CORING AND PRE-SETTING DIVISION

The acquisition of Titan Surface Casing in April of 2005 added additional asset diversity to Trinidad. The capability to provide pre-setting services to our existing customer base is a natural vertical diversification and one that Trinidad's clients have been asking the Trust to provide for some time. The coring operations represent a significant growth opportunity and provide the Trust with strong margins and returns. This segment of the market is expanding rapidly as a number of large oil and gas companies are presently pursuing large multi-million dollar oil sands projects. Trinidad plans to capitalize on this expanding market by investing in specially designed coring rigs which will perform services required by this market.

OUTLOOK

Looking ahead into 2006 and 2007, Trinidad is in a favorable position to grow our cash flow with the successful delivery of our current construction program. This program will provide

our investors with enhanced distributions and add to the stability of overall cash flow.

As an industry, oil and gas fundamentals are still very strong and are forecasted to remain strong for 2006 and 2007. Trinidad's assets, customer base, people and management have positioned the Trust favorably to continue to add value with the successful deployment of the current construction program. At Trinidad, we have always followed an approach which involves asking ourselves - "How can we be better?". We seek to improve in terms of our people, assets, investments, rig design, safety and operational efficiency. We are not satisfied with what we have accomplished or with how we compare to our competitors. At Trinidad we are always striving to "raise the bar". Looking ahead, we are very optimistic and excited about the opportunities that are available to Trinidad. The Trust, with the support of our employees, directors and unitholders, has truly become a market leader in the drilling and well servicing business. The scope and overall capabilities of the Trust have changed significantly during 2005 and provide the foundation for further accretive growth for our unitholders.

ACKNOWLEDGMENT

We would like to recognize and thank our employees, directors and unitholders for their continued support.

2005 PERFORMANCE

Trinidad has enjoyed tremendous success since its conversion to a Trust and has proven its ability to find and complete acquisitions that added to unitholder value making it a lucrative investment for unitholders. The Trust has almost doubled its average daily trading volume over the last year from 120,588 units per day to 236,150 units per day through its investments based on market trends and opportunities.

236150

236,150 average daily trading volume

$1.28 billion market capitalization

Throughout 2005 the Trust executed on the strong market conditions by completing several acquisitions and commencing the current rig construction program to provide accretive growth to unitholders. The ability to effectively execute the Trust's business plan has consistently provided our investors with above average returns allowing growth in market capitalization from $520.4 million at the end of 2004 to $1.28 billion at the end of 2005.

2005 review of activity

Activity in the oil and gas sector reached record levels throughout the 2005 fiscal year, allowing Trinidad to expand its drilling and well servicing fleet through acquisitions and construction programs in both Canada and the United States. Capitalizing on the robust market conditions, Trinidad has positioned itself as a key player in the industry maintaining its position as the third largest Canadian based drilling contractor, well positioned to continue its geographical expansion into the upcoming year.

The intense activity levels in the industry in 2005 provided for growth opportunities in the service sector. Trinidad utilized this opportunity to expand the drilling fleet through the construction of 22 new drilling rigs, all backed by three to five year take-or-pay contracts with major North American oil and gas companies to be deployed in both Canada and the United States. The acquisition of Cheyenne Drilling in the United States further allowed Trinidad to obtain a stronger presence in the US market by obtaining a fully operational and well known fleet of drilling rigs. This presence in the United States market will serve to decrease the Trust's overall exposure to the seasonal factors which are present in its Canadian operations. Completion of the drilling construction program, coupled with the acquisition of Cheyenne, will double the drilling fleet in the upcoming year, increasing it to 101 drilling rigs from 51 in 2004.

Growth of Trinidad's well servicing fleet was also present throughout 2005 as the number of well servicing rigs increased from 8 in 2004 to 16 at the end of 2005. This substantial growth was achieved both through construction and the acquisition of Summit Energy Services. Trinidad also expanded the range of services that is provided to its customers through the acquisition of Titan Surface Casing, which allowed the Trust to provide a more comprehensive suite of rigs to its customers. This acquisition diversified Trinidad's drilling fleet by adding 14 preset and coring rigs, increasing the total number of preset and coring rigs to 17 at the end of the year.

Notwithstanding Trinidad's exceptional growth throughout 2005, the Trust has maintained consistent utilizations levels, continuing to exceed the industry average. Over the past three years Trinidad has increased its rig count by 75 rigs

but continues to manage its operations in an efficient manner ensuring that utilization levels and margins do not decline. In 2005 Trinidad again exceeded the industry average by 10% obtaining an average utilization rate for the year of 65%.

Trinidad's 2005 rig construction program is expected to reap rewards in 2006 as rigs are completed and put into operation. Four new service rigs and three drilling rigs were constructed and deployed in 2005 with the remaining 19 drilling rigs currently under construction and expected to be deployed in 2006. The completion of the rig construction program will further strengthen the Trust's market position and continue to increase both well servicing and drilling capacity.

High demand and the addition of deeper drilling rigs to the fleet allowed Trinidad to increase its day rates to $20,763 in 2005 compared with $16,922 per drilling day in 2004. At the same time, the Trust's larger drilling fleet led to an increase in the number of drilling days to 12,572 in 2005 from 7,829 in 2004. Higher day rates and increases in drilling days combined to more than double Trinidad's revenue and cash flow in 2005.

Trinidad continues to construct new drilling and service rigs in 2006 to position itself for maximum growth in the upcoming year and beyond.

OPERATIONS

Trinidad features one of the most adaptable, competitive and complete drilling fleets in the oil and gas industry. The Trust pays attention to its people by striving to put three complete crews of trained personnel on each of its modern, reliable and expertly designed rigs.

In 2005, the Trust increased its efficiency by completing construction of an operational centre on 40 acres of land in Nisku, Alberta. Trinidad began development of the centre last year in order to amalgamate four existing facilities into one operational centre. In addition to increased efficiency, the centre's state-of-the-art gymnasium, training facilities and cafeteria help demonstrate the value Trinidad places on its employees.

Modern facilities and new rigs only tell part of the story. Trinidad also maintains an aggressive capital upgrade program to restore acquired or aging rigs in the fleet. This investment into the rig fleet ensures that the competitive advantages Trinidad enjoys are maintained. It is a strategy choice that promotes technological enhancements, and design advancements. The goal for Trinidad is to continually provide safe, more efficient operations that save our customers money and provide strong returns for our unitholders.

ENVIRONMENT

Trinidad strives to minimize the impact of its operations on the environment by enforcing noise controls, conducting audits and being responsive when potential problems are brought to its attention. The Trust's environmental protection policy has an impact on equipment maintenance, site inspections and waste disposal.

Trinidad's environmental protection practices meet or exceed provincial standards. The Trust communicates provincial standards to employees to ensure everyone is aware of government regulations, Trinidad's expectations and the value of corporate citizenship. Being a good corporate citizen is integral to the way the Trust does business.

TOTAL DRILLING RIG OPERATING DAYS BY DEPTH

SAFETY

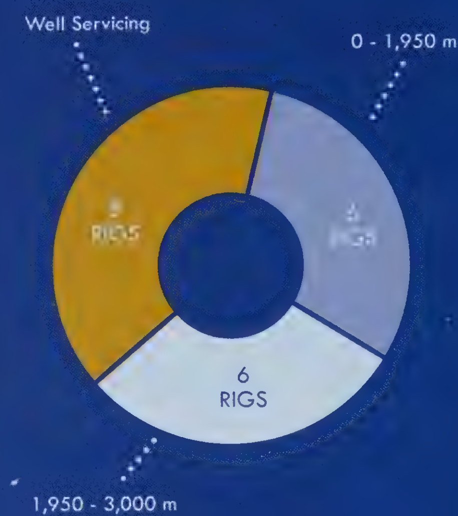
Trinidad took a number of steps in 2005 to put safety first. The Trust managed to maintain its stellar safety record, thanks in part to new initiatives and key additions to its safety team. During 2005, Trinidad undertook and implemented “A Safe Driving Initiative”. This initiative consisted of training courses, ongoing safety meetings, and the production of an in-house video entitled “Don’t Break The Chain”. This program was developed in cooperation with senior management and employees to put emphasis on the importance that Trinidad puts on safety.

Every Trinidad employee has been trained to recognize the importance of the chain of responsibility to ensure risks are managed and lives are saved. This involves identifying hazards, assessing the extent of problems and controlling the risks. In order to control the risks, Trinidad maintains its equipment, conducts safety inspections and trains its leaders in both safety methods and managing people.

PRE-TRUST CONVERSION

(September 17, 2002)

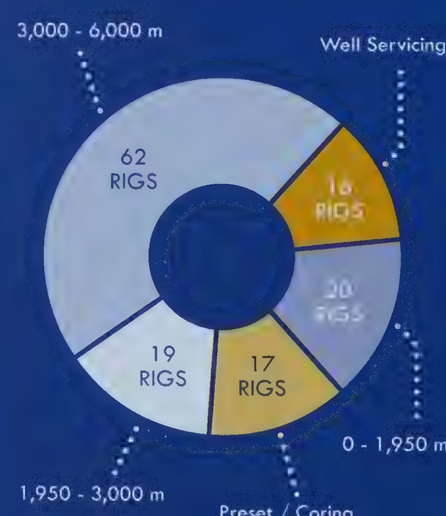
12 Drilling Rigs
8 Well Servicing Rigs



TRINIDAD TODAY

(including current rig construction program)

101 Drilling Rigs
16 Well Servicing Rigs
17 Preset/Coring Rigs



MARKETING

Trinidad values its relationships with oil and gas operators of all sizes. Despite the challenges caused by vigorous industry activity in 2005, the Trust made every effort to deliver on time and on budget with above standard crews and equipment. While some of its peers have struggled, Trinidad has been able to capitalize on industry fundamentals and market trends because of its proactive approach, its willingness to have senior managers deal directly with operators and its diversified marketing efforts.

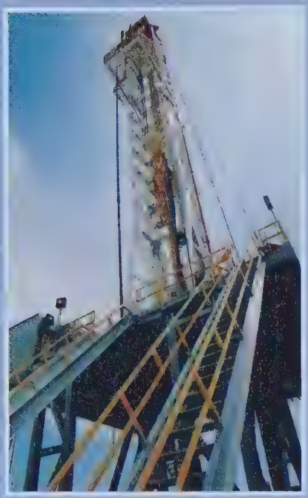
The Trust's management team continues to follow a small business philosophy within an organization that employs more than 2,500 people. Employees and clients are granted direct access to managers. Managers are empowered through a flexible corporate structure to make decisions quickly and to implement them without delay.

Trinidad's marketing team is building for the future by finding a balance between signing long-term contracts with large producers and coming to the aid of small oil and gas explorers. Trinidad realizes the need to limit the number of rigs it commits to any one customer. A well diversified customer base reduces the Trust's dependence on any one producer and ensures that Trinidad's fleet and cash flow is subject to much less customer specific market risk.

UNITED STATES

The Trust expanded rapidly into the United States in 2005. The purchase of Cheyenne Drilling for $231.7 million at the end of the year provided Trinidad with instant infrastructure, customer base, management and market knowledge. This acquisition, along with key additions to senior management, is the platform for continued expansion into the United States. Trinidad now has more than 385 employees, 22 rigs, and offices in three different states (Texas, Oklahoma and Kansas).

The move south was designed to reduce the impact of the seasonality of Canadian operations. In the United States operators can work for more than 340 days compared to Canada's reduced season of 250 days due to spring break-up. The higher number of operating days in the United States is expected to allow Trinidad to better manage its business with sustained cash flows throughout the annual cycle. All of the rigs being constructed for the US market are currently operating under take-or-pay contracts, guaranteeing a day rate for Trinidad of three to five years and removing the risk of a downturn in the market. As more rigs are completed under our current rig construction program and put into operation, this should add additional stability to the current cash flow of the Trust. Strong margins and high utilization achieved by the US division are expected to contribute significantly to Trinidad's performance in 2006.



Trinidad is now the third largest Canadian based drilling contractor based on total metres drilled having increased its drilling fleet more than eight times since its conversion to a Trust. Based on 2005 industry statistics on metres drilled, Trinidad obtained 7% of the total Canadian drilling market and with the completion of the current rig construction program it is anticipated this will increase to approximately 10%. In addition, Trinidad's market share is primarily comprised of the highest utilization and margin work within the drilling sector.

As well, throughout the 2005 fiscal year the Trust invested significant capital in the United States through both its rig construction program and the acquisition of Cheyenne Drilling. The Trust will exit 2006 with approximately 36 rigs in operation in the United States, geographically diversifying the Trust's drilling fleet and making itself a player in the international market.

3

3rd largest drilling contractor

22

management's discussion & analysis

The following is management's discussion and analysis ("MD&A") concerning the operating and financial results for the three and twelve months ended December 31, 2005, and its outlook based on information available as at February 17, 2006.

The following discussion is based on the Trinidad Energy Services Income Trust (the "Trust" or "Trinidad") consolidated financial statements for the year ended December 31, 2005 which were prepared in accordance with Canadian generally accepted accounting principles. The following discussion should be read in conjunction with the consolidated financial statements and attached notes contained in this report. Additional information is also available on the Trust's website (www.trinidaddrilling.com) and all previous public filings, including the most recently filed Annual Information Form, which are available through SEDAR (www.sedar.com).

For the years ended December 31,

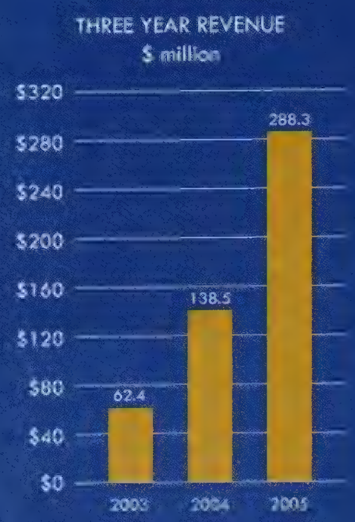
(thousands except unit and per unit data)	2005	2004	2003
FINANCIAL HIGHLIGHTS			
Revenue	**288,332**	138,477	62,338
Gross margin (1)	**120,415**	56,827	23,840
EBITDA (2)	**91,116**	42,803	14,911
Per unit (diluted)	**1.52**	1.14	0.86
EBITDA before unit based compensation (2)	**94,319**	42,973	18,338
Per unit (diluted)	**1.57**	1.15	1.00
Cash flow before change in non-cash working capital (1)	**87,299**	38,906	15,743
Per unit (diluted)	**1.45**	1.04	0.86
Distributions paid and declared	**51,905**	23,698	8,352
Distributions paid and declared per unit (basic)	**0.88**	0.64	0.46
Payout ratio (4)	**59%**	61%	53%
Net earnings	**47,427**	20,790	4,599
Per unit (basic)	**0.81**	0.56	0.25
Per unit (diluted)	**0.79**	0.55	0.25
Net earnings before unit based compensation	**50,630**	20,960	8,026
Per unit (diluted)	**0.84**	0.56	0.44
Units outstanding – basic (weighted average) (3)	**58,850,122**	36,833,388	18,084,880
Units outstanding – diluted (weighted average) (3)	**60,134,317**	37,513,167	18,360,628
OPERATING HIGHLIGHTS			
Operating days – drilling	**12,572**	7,829	3,936
Rate per drilling day	**20,763**	16,922	14,355
Utilization rate – drilling	**65%**	66%	63%
CAODC industry average	**59%**	53%	53%
Drilling rigs	**71**	51	21
Utilization rate for service rigs	**61%**	54%	67%
Service rigs	**16**	8	8

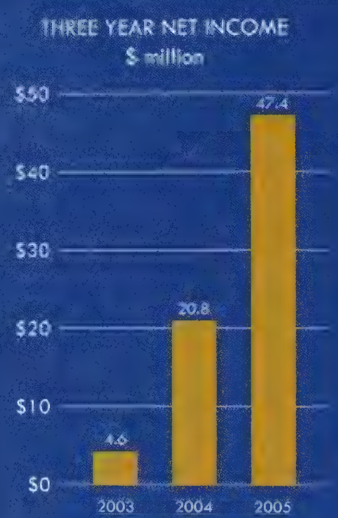
(1) Readers are cautioned that Cash flow before change in non-cash working capital and Gross margin do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers; however, the Trust does compute both Cash flow before change in non-cash working capital and Gross margin on a consistent basis for each reporting period.

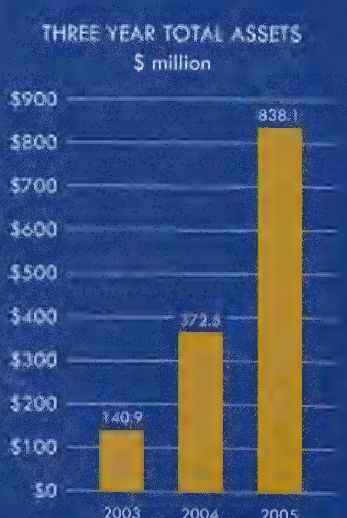
(2) EBITDA means earnings before interest, taxes, depreciation and amortization. Readers are cautioned that EBITDA does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers; however, the Trust does compute EBITDA on a consistent basis for each reporting period.

(3) Basic and diluted units outstanding includes trust units to be issued upon conversion of exchangeable shares.

(4) Payout ratio is only provided on a year-to-date basis and is calculated as distributions paid and declared divided by cash flow before changes in non-cash working capital.







FORWARD-LOOKING STATEMENTS

The MD&A contains certain forward-looking statements relating to the Trust's plans, strategies, objectives, expectations and intentions. Expressions such as "anticipate", "expect", "project", "believe", "estimate", and "forecast" should be used to identify these forward-looking statements. The Trust believes that the expectations reflected in those forward-looking statements are reasonable however such statements are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward-looking statements. These statements speak only as of the date of the MD&A and the Trust does not intend, and does not assume any obligation, to update these forward-looking statements.

NON-GAAP MEASURES

This MD&A contains references to the term "cash flow before change in non-cash working capital" to refer to the amount of cash that is expected to be available for distribution to unitholders and the term "EBITDA" to refer to earnings of the Trust before interest, taxes, depreciation and amortization which the Trust believes are measures followed by the investment community and therefore provide useful information. The terms "cash flow before change in non-cash working capital" and "EBITDA" are not measures recognized by Generally Accepted Accounting Principles ("GAAP") and do not have standardized meanings prescribed by GAAP and accordingly may not be comparable to similar measures presented by other companies. However, the Trust computes "cash flow before change in non-cash working capital" and "EBITDA" on a consistent basis for each reporting system.

OVERVIEW

Strong industry fundamentals supported by high commodity prices and increased demand in the oil and gas service sector continued throughout 2005, which positively impacted the Trust throughout the year. The industry reached record highs, drilling 21,925 wells in 2005, an increase from the prior year. Trinidad continued to capitalize on these strong conditions with the client sponsored expansion of its drilling fleet in order to meet the increased demand. The first quarter saw the normal seasonal peaks in drilling but was interrupted by an early spring break up that lowered the average utilization for the quarter. The second quarter was plagued by an unusually wet spring and early summer that created a delay in drilling programs throughout the industry. Despite the early spring break up and wet second quarter Trinidad saw activity in the latter half of the year return to the higher levels that were present throughout the first quarter as weather conditions improved, allowing oil and gas companies to execute on their drilling programs. CAODC industry rig utilization for 2005 was 59% overall. Trinidad again exceeded the average by 10% obtaining rig utilization levels of 65% for the year.

Throughout 2005 the Trust completed three acquisitions and announced a drilling construction program which will result in 22 rigs being constructed and deployed in both Canada and the United States. The acquisition of Titan Surface Casing Ltd. in the second quarter of 2005

diversified Trinidad's drilling fleet by adding 14 preset and coring rigs. This acquisition allowed the Trust to provide more comprehensive service to its customers by broadening the range of drilling services offered. The well servicing division was also expanded through the acquisition of Summit Energy Services, which added 6 service rigs to the existing service rig fleet. This coupled with experienced management provided accretive growth to unitholders throughout the latter half of the year. Finally, the acquisition of the assets of Cheyenne Drilling LP in the United States at the end of the fourth quarter of 2005 advanced the Trust's strategy to geographically diversify their drilling fleet. This acquisition added 20 drilling rigs to the existing fleet and has provided for immediate accretive growth for unitholders and will reduce the Trust's exposure to seasonal factors which are present in its Canadian operations. In addition, this acquisition further strengthens the existing infrastructure and management depth in the United States.

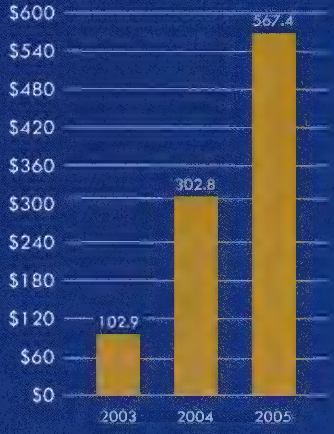
In order to meet the increased demand facing the industry Trinidad executed on several rig construction programs during 2005, which increased both its well servicing and drilling capacity. In January 2005 the Trust announced its plan to construct four new service rigs, all of which were completed and placed into service throughout the year further expanding its well servicing fleet. Additionally, late in the first quarter and into the second quarter Trinidad announced its intent to build 22 new drilling rigs to be deployed in both Canada and the United States, all backed by take-or-pay contracts with two major North American oil and gas exploration and production companies guaranteeing a day rate for Trinidad over three to five years as they are put into operation. Three of these drilling rigs were completed and put into operation in 2005, and the remainder are expected to be deployed throughout 2006.

The year saw tremendous growth for the Trust through the successful integration and operation of previous acquisitions and the completion of five new diesel electric rigs which were announced in the prior year. These expansions, coupled with the acquisitions completed in the current year have combined to more than double revenues and cash flow for 2005. Strong demand across the oilfield service sector created advantageous working conditions and Trinidad continued to execute on these opportunities. Cash flow continued to be a focus and the Trust ended the year in a favorable position to complete the rig construction program and evaluate additional opportunities as they become present in the upcoming year. The two equity issuances completed in 2005 for net proceeds of $308.5 million assisted the Trust in minimizing debt levels and allows Trinidad to enter the upcoming year with a strong balance sheet and the ability to capitalize on the strong market into 2006.

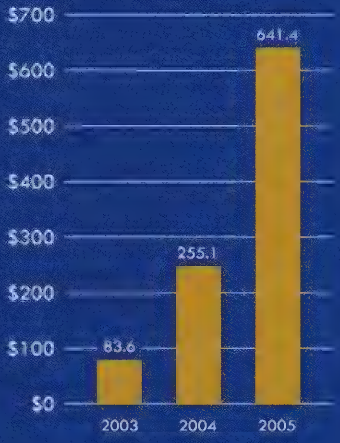
RESULTS FROM OPERATIONS

Strong market conditions and the successful integration of prior acquisitions contributed to the Trust's growth in revenue throughout 2005. The early spring break up and delay of drilling activity due to record rainfall in Western Canada throughout the second quarter left many oil and gas companies with unexecuted drilling programs. However activity levels quickly ramped up in the third quarter and throughout the remainder of the year resulting in an overall revenue

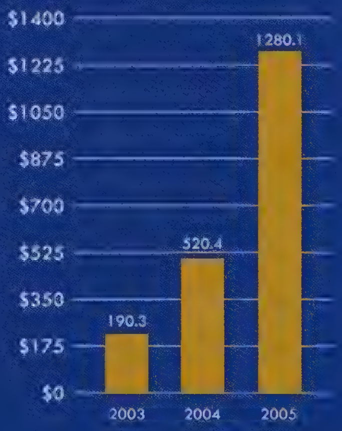
THREE YEAR CAPITAL ASSETS NET BOOK VALUE
$ million



THREE YEAR UNITHOLDERS' EQUITY
$ million



THREE YEAR MARKET CAPITALIZATION
$ million



increase of $149.8 million to $288.3 million in 2005 from $138.5 million in the prior year. Increased demand across the industry led to increases in the day rates from $16,922 per drilling day in the prior year to $20,763 in 2005, and growth in the Trust's drilling fleet increased the number of drilling days contributing to the year-over-year increase. Furthermore, despite the significant growth in the drilling fleet (December 31, 2003 – 21 rigs; December 31, 2004 – 51 rigs; December 31, 2005 – 71 rigs) Trinidad has further demonstrated its ability to successfully integrate its prior acquisitions and execute on the strong commodity prices through an increase in utilization from 72% in the fourth quarter of 2003 to 78% at the end of the fourth quarter 2005.

Consolidated gross margin increased to $120.4 million from $56.8 million in 2004, an increase of 112% and gross margin percentages increased to 41.8% from 41.0% on a year-to-date basis. Utilization of downtime in the second quarter to complete much of the repairs and maintenance work scheduled for the latter part of the year placed Trinidad in a favorable position as drilling activity ramped up in the latter part of the year. This strategy allowed the Trust to capitalize on the higher activity levels present throughout the fourth quarter and reduce the routine maintenance work which would normally be performed throughout the year. Trinidad's increasing margins are also reflective of changes in the composition of Trinidad's drilling fleet resulting in increased drilling depth and higher day rates.

The acquisition of Cheyenne Drilling allowed the Trust to penetrate the US market by acquiring a fully operational fleet for $231.7 million. This acquisition, along with the rig construction program in the United States, contributed $5.4 million to the overall growth in the Trust revenue and accounts for only 12 days of revenue from Cheyenne. Gross margins obtained in the US market by Cheyenne were 49.3% and are anticipated to contribute significantly to the overall Trust performance as we move into 2006.

OPERATING AND GENERAL AND ADMINISTRATIVE EXPENSES

Operating costs increased to $167.9 million for 2005 from $81.7 million in 2004, an increase of 106%. The increase in operating costs is directly related to the increase in revenue caused by growth and strong market conditions as overall margins have increased only moderately in 2005.

General and administrative expenses have increased to $26.2 million from $13.9 million as a result of the Trust's growth over the past year, but have decreased as a percentage of revenue from 10.0% to 9.1%. Despite the significant growth of the Trust's operations, management has maintained conservative spending to provide accretive growth for unitholders. Growth through acquisitions and the expansion of the Canadian and US operations completed throughout the year have contributed to an overall increase in general and administrative expense, however these expenditures have increased the Trust's revenue capabilities throughout 2005 and into 2006.

FOREIGN EXCHANGE GAIN

In the third quarter of 2005 the commencement of operations through the release of the first newly constructed drilling rig in the United States resulted in a revaluation of the United States operations into Canadian currency for the purposes of financial reporting. As a result of applying the temporal method for translating the foreign subsidiary the Trust has recognized a gain of $0.09 million on a year-to-date basis which was attributable to fluctuations in the exchange rates between the Canada and the United States throughout this time period.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased 94% on a year-to-date basis from $14.7 million in 2004 to $28.5 million in 2005. On a per drilling day basis depreciation rates have increased by $387 per drilling day to $2,266 in 2005 from $1,879 in 2004. The increased depreciation rate per drilling day is a result of changes in the composition of Trinidad's asset base which has increased drilling depths as a result of acquisitions and the current construction program. These drilling rigs have higher capital costs which result in an increase in the depreciation rate per drilling day.

INTEREST

Year-to-date interest expense increased from $3.2 million in 2004 to $5.6 million in 2005. The increase in annualized interest expense resulted from increases in long term debt throughout the latter half of 2004 and into 2005 as Trinidad pursued expansion opportunities financed partially through borrowings. In the second quarter of 2005 the equity issuance

that was completed was used to reduce debt levels thereby reducing interest expense throughout that period. However, as the Trust has continued its rig construction program throughout the third and fourth quarters, advances have been made on the facility which has increased overall debt levels and interest expense in comparison with the prior year.

UNIT BASED COMPENSATION

Unit based compensation increased from $0.2 million in 2004 to $3.2 million in 2005. The application of the fair value method commencing in the fourth quarter 2004 contributed to the variance year-over-year. In addition, the rights grant that was completed in the second quarter of 2005 increased unit based compensation for the period.

INCOME TAXES

Trinidad's current income tax expense increased from $0.9 million to $1.4 million year-to-date. The increases in the current income tax expense were due to higher capital taxes as a result of increases in the Trust's capital structure, including the equity issuance that was completed December 20, 2005 for the acquisition of Cheyenne Drilling. Increases in the Trusts' capital taxes were partially offset through lower rates in 2005.

Future income tax expense increased to $8.2 million in 2005 from $3.2 million in 2004. This increase is a result of higher net income for the year resulting in increases in the temporary differences on capital assets due to increased capital cost allowance claimed for income tax purposes. This has been offset through reductions in the Trust's taxable income from increases in the Trust's monthly distributions to unitholders. The effective tax rate on earnings has remained consistent year-over-year.

NET EARNINGS AND CASH FLOW

Trinidad increased consolidated net earnings by 128% to $47.4 million in 2005 from $20.8 million in 2004 by executing on the strong market conditions that were present throughout the year as oil and gas companies aggressively pursued their drilling programs. These increased activity levels created opportunities which Trinidad seized by maintaining relatively consistent utilization levels with the prior year and exceeding the industry average by 10%. Growth in operating margins and maintenance of conservative general and administrative expenditures allowed the Trust to achieve significant growth throughout the year. Higher depreciation due to the increased number of drilling days and increased future income taxes reduced the growth in net income over the period. Year-to-date net earnings per unit increased to $0.79 per unit (diluted) from $0.55 per unit (diluted) in 2004, an increase of 44%.

Cash flow before change in non-cash working capital was $87.3 million ($1.45 per unit (diluted)) an increase from $38.9 million ($1.04 per unit (diluted)) for 2004. The increase of 124% of cash flow reflects the strong conditions present throughout the period and the Trust's ability to execute on opportunities present in the market. In addition the Trust continues to follow a strict investment strategy to provide accretive growth for unitholders through growth in cash flow from operations.

FOURTH QUARTER ANALYSIS

	2005				2004				2003
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL HIGHLIGHTS									
(millions except per unit data – Unaudited)									
Revenue	**106.4**	**75.3**	**32.5**	**74.1**	58.8	30.4	17.1	32.2	24.1
Gross margin	**46.4**	**31.8**	**7.8**	**34.5**	26.8	11.9	4.0	14.1	10.9
Net earnings (loss)	**19.4**	**13.8**	**(1.8)**	**16.0**	15.1	1.4	0.3	4.0	1.1
Depreciation and amortization	**9.5**	**8.1**	**3.4**	**7.5**	6.0	3.3	2.4	3.0	2.5
Unit based compensation	**0.6**	**0.5**	**2.0**	**0.1**	(4.8)	2.7	(0.3)	2.6	2.5
Future income tax expense (recovery)	**5.5**	**1.7**	**(4.0)**	**5.0**	3.5	(0.1)	(1.8)	1.6	1.4
Cash flow before change in non-cash working capital [(1)]	**35.0**	**24.1**	**(0.4)**	**28.6**	19.8	7.3	0.6	11.2	7.5
Earnings (loss) per unit (diluted)	**0.29**	**0.21**	**(0.03)**	**0.31**	0.33	0.04	0.01	0.13	0.04
Cash flow before change in non-cash working capital per unit (diluted) [(1)]	**0.51**	**0.37**	**(0.01)**	**0.56**	0.43	0.19	0.02	0.38	0.29
OPERATING HIGHLIGHTS									
Operating days – drilling	**4,030**	**3,524**	**1,472**	**3,544**	3,011	1,898	1,052	1,868	1,398
Rate per drilling day	**23,080**	**19,205**	**19,448**	**20,121**	18,942	15,331	15,312	16,482	16,050
Utilization Rate – drilling	**78%**	**73%**	**31%**	**76%**	76%	61%	37%	87%	72%
CAODC industry average	**71%**	**63%**	**32%**	**71%**	62%	46%	30%	73%	57%
Drilling rigs operating	**71**	**53**	**52**	**52**	51	35	31	31	21
Utilization for service rigs	**67%**	**61%**	**41%**	**69%**	61%	47%	48%	57%	70%
Service rigs operating	**16**	**16**	**9**	**9**	8	8	7	8	8

(1) Readers are cautioned that Cash flow before change in non-cash working capital and per unit information does not have a standardized meaning prescribed by GAAP; however, the Trust does compute Cash flow before change in non-cash working capital and the per unit information on a consistent basis for each reporting period.

The increased activity level in the third quarter strengthened throughout the remainder of the year as Trinidad increased their drilling days 14% quarter-over-quarter and 34% from the comparative quarter in 2004. Utilization levels continued to strengthen and revenue reached $106.4 million for the fourth quarter 2005. Revenue growth of 81% from $58.8 million in 2004 was impacted by the prior acquisitions that the Trust successfully integrated into its operations and from the effective capitalization on the strong market conditions. Further, increases in day rates in the fourth quarter attributed to the increased revenue. The unusually warm November and December delayed Titan from its coring operations in the oil sands until mid-December reducing Titan's contribution to revenue and gross margin in the fourth quarter. Consolidated gross margin increased for the fourth quarter of 2005 to $46.4 million from $26.8 million in 2004. The ability to successfully execute on the strong commodity prices enabled Trinidad to recognize this 73% increase in gross margin and an 77% increase in cash flow from the comparative quarter in 2004. Depreciation and amortization increased 58% from $6.0 million in the fourth quarter of 2004 to $9.5 million in 2005 and on a per drilling day basis depreciation rates have increased by $391 per drilling day from $1,984 to $2,375 on a quarterly basis.

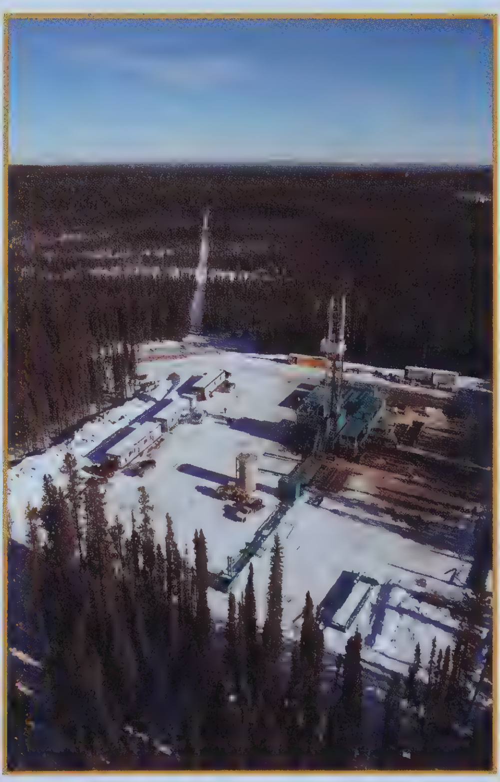
Interest expense for the quarter increased to $1.6 million in 2005 from $1.1 million in 2004 as a result of advances which were made on the debt facility throughout the quarter as Trinidad executed on its build commitment. Trinidad's current income tax expense increased from $0.5 million to $0.8 million in the fourth quarter, an increase of 69% as a result of increases in large corporation tax pertaining to the expansion of the Trust's drilling fleet.

LIQUIDITY AND CAPITAL RESOURCES

For the years ended December 31,

(thousands)	2005	2004	2003
Working Capital	**50,057**	11,884	9,134
Bank overdraft	**-**	1,988	-
Operating line of credit	**-**	8,000	-
Current portion of long term debt	**9,494**	6,482	7,082
Long term debt	**95,956**	60,909	35,128
Total debt	**105,450**	77,379	42,210
Total debt as a percentage of assets	**12.6%**	20.8%	29.9%
Net debt	**45,899**	49,025	25,994
Total assets	**838,084**	372,454	140,941
Total long term liabilities	**130,112**	79,001	40,177
Total long term liabilities as a percentage of assets	**15.5%**	21.2%	28.5%
Unitholders' equity	**641,430**	255,055	83,628
Total debt to unitholders' equity	**16.4%**	30.3%	50.5%

The last year saw significant growth in the Trust's assets which increased both the drilling capacity and capability of the fleet as well as allowed for geographical diversification into the United States. Throughout the year Trinidad completed two equity issuances. The first financing of 11,256,810 trust units for proceeds of $118.6 million net of issue costs was raised to complete the drilling construction program that commenced in the year and will continue into 2006. The proceeds of this issuance were used to repay the debt facilities which were previously drawn thereby increasing the credit available to the Trust to fund the ongoing construction program. The second financing net of issue costs of $189.9 million for 13,333,334 trust units was used to fund the acquisition of Cheyenne Drilling which closed December 20, 2005. The acquisition increased the Trust's capital asset base by approximately $189.4 million and provided for additional infrastructure within the United States to manage the current drilling construction program. The repayment of long term debt through the equity issuance which closed on June 2, 2005 have reduced net debt levels, increased unitholders' equity and reduced debt to equity levels. As Trinidad continues to execute on its commitment to build 22 new rigs, plus the additional 7 rigs which were announced January 17, 2006, the Trust will continue to make additional draws on the current credit facility.



Trinidad's working capital position remains strong and has increased in the year from $11.9 million to $50.1 million, an increase of $38.2 million, placing the Trust in a strong financial position as it moves forward into 2006 and continues its drilling rig construction program. Trinidad will utilize its debt facility as required to finance the construction of its new rigs. As at December 31, 2005, only $105.5 million of $200.0 million was drawn on the term credit debt facility. In addition, on October 7, 2005 the Trust increased its operating line of credit to the lesser of 75% of accounts receivable and $50.0 million (December 31, 2004 - $15.0 million) which was undrawn as at December 31, 2005.

The Trust has several operating lease agreements on buildings and equipment. The future lease obligations for the next five years are summarized below:

(thousands)	
2006	3,286
2007	3,203
2008	3,007
2009	2,441
2010	1,886

In response to customer demand Trinidad has commenced its North American expansion through a commitment to construct 22 new diesel electric drilling rigs, expected to be deployed in Canada and the United States in the latter half of 2005 and into 2006. Total capital costs of construction are expected to be $315.0 million, of which $82.5 million has been paid as at December 31, 2005 and $93.9 has been paid in aggregate as at February 17, 2006. This commitment will be funded through the term credit facility and proceeds raised through the equity issuance during the previous quarter. Three rigs were completed and deployed in 2005. Each of these rigs are backed by take-or-pay contracts which provide for committed days and drilling rates over the next three to five years.

On January 17, 2006 Trinidad announced the construction of another 7 rigs to be deployed in Canada and the United States. Total capital costs are expected to be $78.0 million.

UNITHOLDERS' CAPITAL

As at December 31, (thousands)	2005	2004
Unitholders' capital	**621,972**	222,815
Exchangeable shares	**19,602**	30,800

Unitholders' capital increased by $399.2 million throughout 2005 with the issuance of an additional 33.0 million trust units. The expansion of operations both in Canada and the United States through the acquisition of Titan Surface Casing, Cheyenne Drilling

and the rig construction program required additional financing which was met through the equity issuances completed in the year. The Trust raised $308.5 million, net of issuance costs, through the issuance of 24.6 million trust units which were used to fund the expansion and an additional 3.8 million trust units ($56.4 million) were issued to the former shareholders of Titan Surface Casing and Cheyenne Drilling. In addition, the conversion of 1.7 million Initial Series exchangeable shares to 1.9 million trust units ($13.3 million), all 1.6 million Series B exchangeable shares to 1.7 million trust units ($12.8 million), 0.6 million Series C exchangeable shares to 0.6 million trust units ($5.9 million), and 0.5 million trust units issued on the exercise of options and rights ($2.3 million) effected unitholders capital throughout the year. Unitholders' capital on February 17, 2006 was $632.0 million (79,986,691 units).

Trinidad Drilling issued an additional 2.0 million exchangeable shares to complete the acquisition of Titan Surface Casing at a deemed price of $10.60 per unit ($20.8 million). As at December 31, 2005 the exchange ratio for the Initial series exchangeable shares was 1.14484 and the trust units issuable upon conversion are 687,510 and the exchange ratio for the Series C exchangeable shares was 1.04585 and the trust units issuable upon conversion are 1,471,880. Subsequent to year end 795,435 Series C shares were exchanged for trust units.

DISTRIBUTIONS

	Three months ended December 31,		Twelve months ended December 31,			
(thousands except unit and per unit data – Unaudited)	2005	2004	2005		2004	
Cash flow before changes in non-cashworking capital	**34,961**	19,769	**87,299**	**100%**	38,906	100%
Distributions paid & declared	**(17,216)**	(7,645)	**(51,905)**	**59%**	(23,698)	61%
Cash retained for growth, debt reduction & future distribution	**17,745**	12,124	**35,394**	**41%**	15,208	39%
Cash flow before changes in non-cash working capital per unit (basic) (1)	**0.53**	0.43	**1.48**		1.06	
Distributions paid & declared per unit	**(0.26)**	(0.17)	**(0.88)**		(0.64)	
Cash retained per unit	**0.27**	0.26	**0.60**		0.42	
Quarter ending annualized distribution per unit	**1.02**	0.72				

(1) Includes trust units to be issued upon conversion of exchangeable shares.

During the three months ended December 31, 2005 Trinidad distributed $17.2 million dollars, an increase of $9.6 million, or 125% from the comparative quarter in the prior year. Year-to-date distributions have increased 119% to $51.9 million from $23.7 million in 2004. Annualized distributions have increased 41.7% from $0.72 per unit to $1.02 per unit. The Trust manages its distributions based on a payout ratio goal of up to 75% of cash flow before change in non-cash working capital, with the remainder being retained for future growth opportunities, debt repayment, or incremental distributions to unitholders. Distributions are reviewed at least quarterly and are set based on cash flow before change in non-cash working capital on an earned basis. The payout ratio for the year ended December 31, 2005 has decreased from 61% in 2004 to 59% in 2005.

NEW ACCOUNTING POLICIES

Effective January 19, 2005 the Trust adopted EIC-151 with respect to exchangeable securities issued by subsidiaries of income trusts. In accordance with this policy the Trust has continued to classify the exchangeable shares issued by Trinidad as part of unitholders' equity.

Throughout 2006 the Trust will continue to evaluate the appropriateness of the temporal method of translation for its US operations. With the acquisition of Cheyenne Drilling and the completion of the rig construction program the United States operations will become less dependent on Canada for financing, at which time the application of the temporal method may no longer be appropriate. At this time the Trust will switch to the current rate method for the translating its foreign operations.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management including the CEO and CFO on a timely basis so that appropriate discussion can be made regarding public disclosure.

Trinidad Energy Services Income Trust has evaluated the effectiveness of the design and operation of the disclosure controls and procedures, under the supervision of the CEO and the CFO. Based on the evaluation the Trust has concluded that the disclosure controls and procedures, as defined under Multilateral instrument 52-109, Certification of Disclosures in Annual and Interim Filings were effective as of the end of the period covered by this report.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires that certain estimates and judgments be made with regard to the reported amount of revenues and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management judgment. Anticipating future events involves uncertainty, and consequently the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or the Trust's operating environment changes.

DEPRECIATION

The accounting estimate that has the greatest impact on the Trust's financial results is depreciation. Depreciation of the Trust's capital assets incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change impacting the operation of the Trust's capital assets.

UNIT BASED COMPENSATION

Compensation expense associated with rights at grant date are estimates based on various assumptions such as volatility, annual distribution yield, risk free interest and expected life using the Black-Scholes methodology to produce an estimate of the fair value of such compensation.

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

The Trust performs credit evaluations of its customers and grants credit based on past payment history, financial conditions and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions. The Trust's history of bad debt losses has been minimal and generally limited to specific customer circumstances; however, given the cyclical nature of the oil and gas industry, the credit risks can change suddenly and without notice.

GOODWILL

In accordance with Canadian Generally Accepted Accounting Principles, the Trust performs an annual goodwill impairment test in the first quarter of each fiscal year. This test was performed and no goodwill impairment exists.

OUTLOOK

The demand for drilling assets has continued to exceed supply both in Canada and the United States. Trinidad is in a position to capitalize on the increase in demand in both countries. The addition of the United States assets and infrastructure will add drilling revenue that is uninterrupted from seasonal fluctuations seen in Canada. Furthermore, the higher day rates and utilization levels in the US marketplace will continue to be lucrative in the upcoming year. The rig construction program will add significantly to drilling depths of the Trust's current fleet. These deeper drilling rigs obtain higher day rates, utilization levels and margins as compared with other rigs of shallower capabilities, which will continue to add strength to Trinidad's operations. This combined with the completion of the new rigs to be placed in service in 2006 will again see tremendous growth for the coming year.

Commodity pricing for both oil and gas is expected to remain strong as global demand for commodities continues to exceed current supply which will hold Trinidad in a favorable position as we move into the winter drilling months. Current industry well count forecast for Western Canada, based on the Petroleum Service Association of Canada's drilling forecast, has been increased to approximately 25,000 wells in 2006. In order to meet these increasing demands Trinidad continues to execute on its construction program and is continually seeking out additional investment opportunities in order to increase our capacity. We are focused on continuing to add to our distribution capabilities by accretively growing our business. All capital investments will continue to be evaluated based on return on capital and focused on low risk operating environments.

Trinidad Energy Services Income Trust is a growth oriented income trust that trades on the TSX under the symbol TDG.UN. Trinidad's divisions operate in the drilling and well servicing sectors of the North American oil and gas industry. With the completion of the current rig construction programs, the Trust will have 101 drilling rigs ranging in depths from 1,000 – 6,500 metres. In addition to its drilling rigs, Trinidad has 16 service rigs that have been completely retrofitted or are new within the past five years and one additional service rig currently under construction. Trinidad also operates 17 pre-set and coring rigs. Trinidad is focused on providing modern, reliable, expertly designed equipment operated by well-trained and experienced personnel. Trinidad's drilling fleet is one of the most adaptable and competitive in the industry.

Michael E. Heier,
Chairman of the Board
Chief Executive Officer

Brent J. Conway
Chief Financial Officer

For further information please contact:
Michael Heier, Chairman & Chief Executive Officer or
Brent Conway, Chief Financial Officer at:
Phone: 403.265.6525
Fax: 403.265-4168
E-mail: twood@trinidaddrilling.com

34 consolidated financial statements

MANAGEMENT'S REPORT TO THE UNITHOLDERS

The financial statements of Trinidad Energy Services Income Trust ("Trinidad" or the "Trust") and all information contained in this annual report are the responsibility of the management of Trinidad.

The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles consistently applied, and include certain estimates that are based on management's best judgments. Actual results may differ from these estimates and judgments. In the opinion of management the consolidated financial statements are presented fairly in all material respects. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that of the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial reporting.

The Audit Committee of Trinidad is responsible for reviewing and approving the financial statements and ensures that management fulfills its responsibilities for financial reporting. The Audit Committee meets with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements. For the year ended December 31, 2005 the consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was engaged by the Board of Directors to audit Trinidad's consolidated financial statements in accordance with Canadian Generally Accepted Auditing Standards and provide an independent professional opinion. PricewaterhouseCoopers has full and free access to the Audit Committee.

Lyle Whitmarsh

Mr. Lyle Whitmarsh
President
February 17, 2006

Mr. Brent Conway
Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Trinidad Energy Services Income Trust

We have audited the consolidated balance sheets of Trinidad Energy Services Income Trust ("Trinidad") as at December 31, 2005 and 2004 and the consolidated statements of operations and accumulated earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of Trinidad's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Trinidad as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
February 17, 2006

CONSOLIDATED BALANCE SHEETS

As at December 31,

(thousands)	2005	2004
Assets		
Current assets		
Cash and cash equivalents	**11,749**	-
Accounts receivable	**96,764**	50,139
Prepaid expenses	**2,092**	143
Future income taxes (note 7)	**5,994**	-
	116,599	50,282
Deposit on capital assets	**73,859**	8,935
Capital assets (note 4)	**567,387**	302,773
Goodwill (note 3)	**79,429**	9,806
Deferred finance costs	**810**	658
	838,084	372,454
Liabilities		
Current liabilities		
Bank overdraft	**-**	1,988
Operating line of credit (note 5)	**-**	8,000
Accounts payable and accrued liabilities	**49,275**	19,174
Accrued trust distributions (note 12)	**6,707**	2,754
Current portion of deferred revenue	**1,066**	-
Current portion of long term debt (note 6)	**9,494**	6,482
	66,542	38,398
Deferred revenue	**388**	-
Long term debt (note 6)	**95,956**	60,909
Future income taxes (note 7)	**33,768**	18,092
	196,654	117,399
Unitholders' equity		
Unitholders' capital (note 8)	**621,972**	222,815
Exchangeable shares (note 9)	**19,602**	30,800
Contributed surplus	**5,949**	3,055
Accumulated trust distributions (note 12)	**(84,509)**	(32,604)
Accumulated earnings	**78,416**	30,989
	641,430	255,055
	838,084	372,454

Commitments (note 11)

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED EARNINGS

For the years ended December 31,

(thousands except unit and per unit data)	2005	2004
Revenue	288,332	138,477
Expenses		
Operating	167,917	81,650
General and administrative	26,183	13,854
Foreign exchange gain	(87)	-
Unit based compensation	3,203	170
Depreciation and amortization	28,486	14,708
Interest	5,600	3,201
Earnings before income taxes	57,030	24,894
Income taxes (note 7)		
Current	1,420	866
Future tax expense	8,183	3,238
	9,603	4,104
Net earnings	47,427	20,790
Accumulated earnings - beginning of year	30,989	10,199
Accumulated earnings - end of year	78,416	30,989
Earnings per unit		
Basic	0.81	0.56
Diluted	0.79	0.55
Weighted average number of trust units		
Basic	58,850,122	36,833,388
Diluted	60,134,317	37,513,167

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

(thousands)	2005	2004
Cash provided by (used in)		
Operating activities		
Net earnings for the year	**47,427**	20,790
Items not affecting cash		
Depreciation and amortization	**28,486**	14,708
Unit based compensation	**3,203**	170
Future income tax expense	**8,183**	3,238
Cash flow from operations before change in non-cash working capital	**87,299**	38,906
Net change in non-cash operating working capital	**(33,080)**	(23,246)
	54,219	15,660
Investing activities		
(Increase) decrease in deposits on capital assets	**(46,480)**	1,934
Acquisition of Arrow Drilling (note 3(a))	**-**	(26,438)
Acquisition of Wilson Drilling (note 3(b))	**-**	(19,244)
Acquisition of Jade Drilling (note 3(c))	**-**	(78,863)
Acquisition of Titan Surface Casing (note 3(d))	**(11,300)**	-
Acquisition of Summit Energy Services (note 3(e))	**(18,040)**	-
Acquisition of Cheyenne Drilling (note 3(f))	**(176,287)**	-
Purchase of capital assets	**(98,231)**	(50,620)
Proceeds from dispositions	**1,566**	389
Change in non-cash working capital item - accounts payable and accrued liabilities	**16,061**	4,718
	(332,711)	(168,124)
Financing activities		
(Decrease) increase in bank overdraft	**(1,988)**	1,988
(Decrease) increase in line of credit	**(8,000)**	8,000
Increase in long term debt – net	**38,059**	25,181
Net proceeds from unit issues (note 8)	**310,499**	134,603
Debt financing costs	**(377)**	-
Trust unit distribution (note 12)	**(51,905)**	(23,698)
Change in non-cash working capital item – accrued distributions (note 12)	**3,953**	1,496
	290,241	147,570
Increase (decrease) in cash for the year	**11,749**	(4,894)
Cash and cash equivalents - beginning of year	**-**	4,894
Cash and cash equivalents - end of year	**11,749**	-
Interest paid	**5,494**	3,101
Taxes paid	**866**	521

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. STRUCTURE OF THE TRUST

ORGANIZATION

Trinidad Energy Services Income Trust ("Trust") is an unincorporated open-ended investment trust formed under the laws of the Province of Alberta. The Trust was formed by way of an arrangement ("the Arrangement") under the Business Corporations Act (Alberta) pursuant to an arrangement agreement dated August 8, 2002 between the Trust, Trinidad Drilling Ltd. and Acquisition Corp., a wholly owned subsidiary of the Trust. The Arrangement involved the exchange of Trinidad Drilling Ltd. securities on a one-to-one basis for trust units of the Trust. The effective date of the Trust indenture was September 17, 2002.

2. ACCOUNTING POLICIES

These consolidated financial statements are prepared by management, in accordance with Canadian Generally Accepted Accounting Principles. The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent amounts and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Effective January 19, 2005 the Trust adopted EIC-151 with respect to exchangeable securities issued by subsidiaries of income trusts. In accordance with this policy the Trust has continued to classify the exchangeable shares issued by Trinidad as part of unitholders' equity.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Trust and its subsidiaries, all of which are wholly owned at December 31, 2005. Any reference to the Trust throughout these consolidated financial statements refers to the Trust and its subsidiaries. All intercompany transactions have been eliminated.

FOREIGN CURRENCY TRANSLATION

The operations of Trinidad Drilling US, which commenced in the second quarter of 2005, are considered to be integrated foreign operations and are translated using the temporal method under which all foreign currency transactions are translated at the rate in effect as at the transaction date. Monetary assets and liabilities are translated at the rate in effect as at the balance sheet date. Non-monetary assets and liabilities are translated at their historical rate and gains and losses are recognized into the consolidated statement of operations in the period that they arise.

REVENUE RECOGNITION

Contract revenue is recorded on a percentage of completion basis and only when collectability is reasonably assured. Losses are provided for in full when first determined. Deposits received on future contracts are recorded as deferred revenue and recognized as services are performed.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and short term investments with maturities of three months or less.

CAPITAL ASSETS

Capital assets are recorded at cost less accumulated amortization. Major renewals and improvements, which extend the useful life of the asset, are capitalized, while repair and maintenance expenses are charged to operations as incurred. Disposals are removed at carrying costs less accumulated amortization with any resulting gain or loss reflected in operations. Any deposits or advances on the Trust's build program are held as deposit on capital assets until the related asset is ready for use at which time it will be capitalized.

Depreciation is based on the estimated useful lives of the assets and is as follows:

Rigs And Equipment		
Drilling rigs and related equipment	3,300 drill days	Unit-of-production (10% salvage value)
Drilling pipe and collars	1,300 drill days	Unit-of-production
Well servicing rigs	15 years	Straight-line (20% salvage value)
Buildings	25 years	Straight-line
Office furniture and shop equipment	5 years	Straight-line
Automotive equipment	4 years	Straight-line (10% salvage value)

Inventory of spare parts and tubulars are carried at the lower of cost or replacement value. Cost is determined according to the specific item method.

GOODWILL

Goodwill represents the excess of the purchase price over the fair values of the assets purchased. Goodwill is not subject to amortization, but is tested for impairment on an annual basis by applying a fair value based test. Any goodwill impairment will be recognized as an expense if the carrying amount of the goodwill exceeds its fair value.

DEFERRED FINANCE COSTS

Cost associated with obtaining financing are deferred and amortized on a straight line basis over five years. The amortization is included in depreciation and amortization expense.

INCOME TAX

The Trust follows the liability method of accounting for income tax. Under this method, income tax liabilities and assets are recognized for estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax basis, using substantively enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized into income in the period that the change occurs.

The Trust is a taxable entity under the Canadian Income Tax Act and is taxable only on the income that is not distributed or distributable to unitholders.

UNIT BASED COMPENSATION

The Trust has established a Trust Unit Incentive Plan ("the Plan") to assist directors, officers, employees and consultants of the Trust and its affiliates to participate in the growth and development of the Trust.

Compensation expense associated with rights granted under the Plan is deferred and recognized into earnings over the vesting period of the rights granted with a corresponding increase in contributed surplus. The Trust uses the fair value method using the Black-Scholes model to calculate compensation expense.

FINANCIAL INSTRUMENTS

The Trust's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, deferred revenue, operating line of credit and long term debt. The fair value of these financial assets and liabilities approximate their carrying value, unless otherwise noted. It is management's opinion that the Trust is not exposed to significant interest or credit risks other than such risk relating to debt and the operating line of credit.

DERIVATIVE FINANCIAL INSTRUMENTS

The Trust utilizes derivative financial instruments to manage foreign currency exposures associated with its US operations. Derivative financial instruments are not used for trading or speculative purposes.

The Trust formally documents all relationships between hedging instruments and the hedged items, the risk management objective and strategy and the method for assessing the effectiveness of the hedge. The effectiveness of the hedge is

assessed both at inception of the hedge and throughout its term. If the derivative is deemed to be effective, and qualifies for hedge accounting, gains and losses are deferred until settlement of the derivative contract. If a derivative does not qualify for hedge accounting gains and losses resulting from fluctuations in the fair value of the derivative are recognized into income in the period that they occur.

EARNINGS PER UNIT

Earnings per unit is calculated using the weighted-average number of units and exchangeable shares outstanding during the year. Diluted calculations have been completed using the treasury method.

3. ACQUISITIONS

(a) ACQUISITION OF ASSETS OF ARROW DRILLING

On March 15, 2004 Trinidad Drilling purchased substantially all of the assets of Arrow Drilling for $44.4 million. The Trust issued 4,096,154 units at $7.80 per unit for gross proceeds of $32.0 million. The Trust issued 2,307,692 exchangeable shares at $7.80 per share to the shareholders of Arrow.

The exchangeable shares can be converted (at the option of the holder) into trust units at any time. The exchangeable shares are a new series of exchangeable shares which are not publicly traded and have an exchange ratio of 1:1 at the time of issuance. The exchangeable shares are exchangeable into trust units at any time up to 5 years after issuance, based on an exchange ratio that adjusts each time the Trust makes a distribution to its unitholders.

The consideration paid for this acquisition has been allocated under the purchase method as follows:

(thousands)	2004
Capital assets	44,438
Goodwill	6,192
Future income taxes	(6,192)
Total purchase price	44,438
Financed as follows:	
New equity raised net of issue costs	26,438
Exchangeable shares	18,000
	44,438

Goodwill from this acquisition is not tax deductible.

(b) ACQUISITION OF ASSETS OF WILSON DRILLING

On July 27, 2004 Trinidad Drilling purchased substantially all of the assets of Wilson Drilling for $32.4 million. The Trust issued 3,298,707 units at $7.80 per unit for gross proceeds of $25.7 million. The Trust issued 1,641,026 exchangeable shares at $7.80 per share to the shareholders of Wilson.

The exchangeable shares can be converted (at the option of the holder) into trust units at any time. The exchangeable shares are a new series of exchangeable shares which are not publicly traded and have an exchange ratio of 1:1 at the time of issuance. The exchangeable shares are exchangeable into trust units at any time up to 5 years after issuance, based on an exchange ratio that adjusts each time the Trust makes a distribution to its unitholders.

The consideration paid for this acquisition has been allocated under the purchase method as follows:

(thousands)	2004
Capital assets	32,044
Goodwill	3,614
Future income taxes	(3,614)
Total purchase price	32,044
Financed as follows:	
New equity raised net of issue costs	19,244
Exchangeable shares	12,800
	32,044

Goodwill from this acquisition is not tax deductible.

(c) ACQUISITION OF ASSETS OF JADE DRILLING

On November 10, 2004 the Trust purchased substantially all of the assets of Jade Drilling for $87.6 million. The Trust issued 8,719,198 trust units at $9.35 per unit for gross proceeds of $81.5 million. The Trust issued 937,166 units at $9.35 per unit to the shareholders of Jade Drilling for deemed proceeds of $8.8 million.

The consideration paid for this acquisition has been allocated under the purchase method as follows:

(thousands)	2004
Capital assets	87,625
Financed as follows:	
New equity raised net of issue costs	77,291
New equity issued to shareholders of Jade Drilling	8,762
Debt financing	1,572
	87,625

Total cash proceeds above include the new equity raised of $77.3 million plus the debt financing of $1.6 million for a total of $78.9 million.

(d) ACQUISITION OF SHARES OF TITAN SURFACE CASING LTD.

On April 29, 2005 Trinidad Drilling purchased all of the outstanding shares of Titan Surface Casing Ltd. ("Titan"), effective April 1, 2005, for consideration of $33.0 million. The acquisition was funded through the issuance of 1,961,132 exchangeable shares with a deemed value of $20.8 million, the issuance of 85,960 trust units with a deemed value of $0.9 million and cash of $3.4 million. As part of the Titan acquisition, at the time of closing, Trinidad was obligated to repay the $3.8 million of long term debt and $4.1 million of shareholder loans.

The exchangeable shares can be converted (at the option of the holder) into trust units at any time. The exchangeable shares are a new series of exchangeable shares which are not publicly traded and have an exchange ratio of 1:1 at the time of issuance. The exchangeable shares are exchangeable into trust units at any time up to 5 years after issuance, based on an exchange ratio that adjusts each time the Trust makes a distribution to its unitholders.

The consideration paid for this acquisition has been allocated under the purchase method as follows:

(thousands)	2005
Working capital, net	13
Other assets	60
Goodwill	21,985
Capital assets	12,450
Future income taxes	(1,496)
	33,012
Financed as follows:	
Trust units	911
Exchangeable shares	20,788
Cash, net of working capital	11,300
	32,999
Plus: working capital	13
	33,012

Goodwill from this acquisition is not tax deductible.

(e) ACQUISITION OF ASSETS OF SUMMIT ENERGY SERVICES INC.

On September 30, 2005 Trinidad Well Servicing purchased substantially all of the well servicing assets of Summit Energy Services Inc. for consideration of $18.0 million. The acquisition was funded through internal cash flow.

The consideration paid for this acquisition has been allocated under the purchase method as follows:

(thousands)	2005
Capital assets	12,716
Goodwill	5,324
	18,040
Financed as follows:	
Internal cash flow	18,040
	18,040

The total amount of goodwill arising from this acquisition that is tax deductible is $4.0 million.

(f) ACQUISITION OF ASSETS OF CHEYENNE DRILLING

On December 20, 2005 Trinidad Drilling LP purchased substantially all of the assets of Cheyenne Drilling LP ("Cheyenne") for consideration of $231.7 million. The acquisition was funded through $175.6 million in cash proceeds raised through the issuance of 10,666,667 trust units for gross proceeds of $189.9 million and the issuance of 3,696,786 trust units at a deemed price of $15.00 to the shareholders of Cheyenne.

The consideration paid for this acquisition has been allocated under the purchase method as follows:

(thousands)	2005
Capital assets	189,425
Goodwill	42,314
	231,739
Financed as follows:	
New equity raised net of issue costs	176,287
New equity issued to shareholders of Cheyenne	55,452
	231,739

The total amount of goodwill arising from this acquisition that is tax deductible is $42.3 million.

4. CAPITAL ASSETS

As at December 31,

	2005			2004
(thousands)	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rigs, equipment and inventory	593,758	50,055	543,703	295,668
Automotive and other equipment	8,064	2,041	6,023	2,608
Building	11,156	133	11,023	2,290
Land	6,638	-	6,638	2,207
	619,616	52,229	567,387	302,773

5. OPERATING LINE OF CREDIT

The Trust has a demand operating credit facility for the lesser of 75% of accounts receivable and $50.0 million (December 31, 2004 - $15.0 million). This operating credit facility's stated maturing date is September 22, 2006 and bears interest at prime plus 0.25% per annum (December 31, 2004 – prime). Advances are made on this credit facility based on trade receivables, and the loan is secured based on a charge over accounts receivable. No amounts have been drawn on this facility at December 31, 2005.

6. LONG TERM DEBT

As at December 31,

(thousands)	2005	2004
G.E. Capital (a)	95,080	66,387
Building loans (b)	9,100	-
Vehicle loans (c)	1,270	1,004
	105,450	67,391
Less: current portion of long term debt	(9,494)	(6,482)
	95,956	60,909

(a) On September 23, 2005 Trinidad increased its term credit facility to a $200.0 million (December 31, 2004 - $100.0 million) non-reducing term facility held by an affiliate of GE Energy Financial Services, Deutsche Bank AG, Toronto Dominion Bank, Bank of Nova Scotia and the Royal Bank of Canada. The facility requires monthly interest payments based on the one month banker's acceptance rate plus 3.5%. The facility is renewable annually based on the Trust maintaining compliance with standard debt covenants. To the extent that the facility is not renewed the debt repayments would be amortized over 36 months. The facility is secured by a general security agreement covering substantially all Trust assets.

At December 31, 2005, $8.7 million (December 31, 2004 - $6.2 million) of the outstanding balance on this facility is included in the current portion of long term debt, representing the portion that would become due in the current year if G.E. Capital did not renew the facility. The Trust is in compliance with the debt covenants and therefore expects the facility to be renewed.

(b) On December 15, 2005 Trinidad entered into a $9.1 million non-revolving credit facility with GE Canada on properties held by the Trust. The facility requires monthly interest payments at a rate of 6.26% per annum and maturing June 2011.

(c) The vehicle loans are payable over various periods from 24 months to 60 months at interest rates varying from 0% to 9%, and are secured by the related assets.

7. INCOME TAXES

For the years ended December 31,

(thousands)	2005	2004
Net income before tax	**57,834**	24,894
Corporate tax rate	**34.16%**	34.56%
Tax expense at statutory rate	**19,756**	8,604
Tax reduction arising from trust income distribution	**(12,656)**	(5,317)
Non deductible expenses – unit based compensation	**1,136**	59
Effect of change in expected tax rate	**(344)**	(94)
Large corporation tax expense	**1,334**	866
Other	**377**	(14)
Total tax expense	**9,603**	4,104

The liability and asset for future income taxes on the Trust's balance sheet is comprised of the following temporary differences:

As at December 31,

(thousands)	2005	2004
Loss carry forward	**5,994**	-
Future tax asset	**5,994**	-
Capital assets	**(33,731)**	(18,057)
Financing costs	**(37)**	(35)
Future tax liability	**(33,768)**	(18,092)

Total loss carry forwards of $16.0 million have been recognized for income tax purposes as a future income tax asset.

8. UNITHOLDERS' CAPITAL

Authorized
Unlimited number of trust units, voting, participating

For the years ended December 31,

	2005		2004	
(thousands except unit data)	Number of Units	Amount $	Number of Units	Amount $
Unitholders capital – opening balance	**45,898,116**	**222,815**	27,949,881	79,093
Trust units issued – for cash, net of issue costs	**24,590,144**	**308,522**	16,114,059	131,600
Trust units issued to former shareholders on acquisitions	**3,782,746**	**56,363**	937,166	8,763
Trust units issued on conversion of exchangeable shares	**4,158,022**	**31,986**	-	-
Trust units issued on exercise of options and rights	**480,948**	**1,977**	897,010	3,002
Contributed surplus transferred on exercised options and rights	**-**	**309**	-	357
Unitholders' capital – ending balance	**78,909,976**	**621,972**	45,898,116	222,815

The per unit trust amounts for 2005 were calculated on the weighted average number of units outstanding of 58,850,122 (2004 – 36,833,389). In the current year the calculated additional diluted units are 1,284,195 (2004 – 679,779) due to the dilutive impact of employee and director rights and options.

9. EXCHANGEABLE SHARES

A subsidiary of the Trust has issued the following exchangeable shares:

For the years ended December 31,

	2005		2004	
(thousands except unit data)	Number of Shares	Amount $	Number of Shares	Amount $
Exchangeable shares – opening balance	**3,948,718**	**30,800**	-	-
Exchangeable shares issued, Initial Series – Arrow purchase	**-**	**-**	2,307,692	18,000
Exchangeable shares issued, Series B – Wilson purchase	**-**	**-**	1,641,026	12,800
Exchangeable shares issued, Series C – Titan purchase	**1,961,132**	**20,788**	-	-
Exchangeable shares exchanged, Initial Series	**(1,707,162)**	**(13,316)**	-	-
Exchangeable shares exchanged, Series B	**(1,641,026)**	**(12,800)**	-	-
Exchangeable shares exchanged, Series C	**(553,779)**	**(5,870)**	-	-
Exchangeable shares – ending balance	**2,007,883**	**19,602**	3,948,718	30,800

The exchange ratio for the initial series exchangeable shares is 1.14484 and the trust units issuable upon conversion are 687,510. All Series B exchangeable shares were converted during the year. The exchange ratio for the Series C exchangeable shares is 1.04585 and the trust units issuable upon conversion are 1,471,880. Subsequent to year end 795,435 of these shares have been exchanged for trust units.

10. UNIT OPTION AND RIGHTS PLAN

UNIT OPTION PLAN

The Trust Unit Option Plan provides for unit options to assist directors, officers, employees and consultants of the Trust and its affiliates to participate in the growth and development of the Trust.

All options issued shall vest in equal proportions over a period of three years from the date of grant (unless otherwise determined by the Board of Directors at the time of issue) and, shall be exercisable for a period of five years from the date of grant. The options will have an exercise price not exceeding the closing trading price for the units on the Toronto Stock Exchange on the date immediately preceding the date of grant and not less than the price permitted by applicable securities law.

The following summarizes the unit options that are outstanding under the Unit Option Plan as at December 31, 2005 and 2004 and the changes during these periods:

For the years ended December 31,

	2005		2004	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding – beginning of period	**107,729**	**1.97**	352,094	1.97
Granted during the period	**-**	**-**	-	-
Exercised during the period	**(87,879)**	**1.91**	(244,365)	1.97
Returned during the period	**-**	**-**	-	-
Outstanding – end of period	**19,850**	**2.25**	107,729	1.97

The unit options outstanding at December 31, 2005 are as follows:

	Total options outstanding			Exercisable options	
Exercise Price	Number	Weighted average exercise price	Weighted average remaining life (years)	Number	Weighted average exercise price
$2.25	19,850	2.25	0.34	19,850	2.25

For options granted in 2002, the Trust has elected to disclose the pro forma results as if the amended accounting standard had been applied retroactively. On May 24, 2002, the Trust issued 172,000 options under the Unit Option Plan at an exercise price of $1.58. The Trust recognized no compensation expense in respect of the options granted under its Unit Option Plan. The estimated fair value of these options, computed using the Black-Scholes model was approximately $120,000. If the Trust applied the fair value method of accounting for stock based compensation, the estimated fair value of $120,000 would be recognized as additional compensation expense over the vesting period of the options. The pro forma effect of applying this method of accounting for the year ended December 31, 2005 would be to decrease net income by $15,781 (2004 - $40,000). There would be no effect on the basic and diluted earnings per trust unit.

In estimating the fair value of these options the Trust has used an assumed interest rate of 4.5%, a term to maturity of five years and a volatility of 49%. The Trust unit price was based on the closing monthly share/unit price since Trinidad Drilling Ltd.'s Initial Public Offering. Because the options were granted prior to the Arrangement it was assumed that no dividends would be paid.

TRUST UNIT RIGHTS INCENTIVE PLAN

On May 2, 2003 the Trust established the Trust unit rights incentive plan for unit rights to assist directors, officers, employees and consultants of the Trust and its affiliates to participate in the growth and development of the Trust. The Trust Unit Rights Incentive Plan restricts the number of rights reserved for issuance such that it does not exceed 10% of the trust units outstanding.

Rights granted vest 50% immediately and 25% on the first and second year from the date of grant (unless otherwise determined by the Board of Directors at the time of issuance) and, shall be exercisable for a period of five years from the date of grant. The rights will have an exercise price not exceeding the closing trading price for the units on the Toronto Stock Exchange on the date immediately preceding the date of grant and not less than the price permitted by applicable securities law. The exercise price of rights may be adjusted downwards at the option of the rights holder from time to time by the amount, if any, that the distributions to unitholders in any calendar quarter exceed 2% (8% annually) of the Trust's net book value of capital assets.

The following summarizes the unit rights that are outstanding under the Trust Unit Rights Incentive plan as at December 31, 2005 and 2004 and the changes during these periods:

For the years ended December 31,

	2005		2004	
	Number of rights	**Weighted average exercise price**	Number of rights	Weighted average exercise price
Outstanding – beginning of period	**3,928,738**	**7.62**	1,832,872	4.09
Granted during the period	**2,257,724**	**12.22**	2,778,021	9.03
Exercised during the period	**(393,069)**	**4.60**	(652,645)	3.87
Returned during the period	**(47,067)**	**6.34**	(29,510)	4.53
Outstanding – end of period	**5,746,326**	**9.64**	3,928,738	7.62

The range of exercise prices for the unit rights outstanding at December 31, 2005 is as follows:

	Total rights outstanding			Exercisable rights	
Range of Exercise Prices	Number	Weighted average exercise price	Weighted average remaining life (years)	Number	Weighted average exercise price
$2.78 - $4.00	125,595	2.78	2.34	125,595	2.78
$4.01 - $6.00	711,210	4.89	2.74	711,210	4.89
$6.01 - $9.00	1,155,169	8.36	3.45	841,331	8.36
$9.01 - $12.22	3,754,352	11.17	4.22	2,244,823	10.91
$2.78 - $12.22	5,746,326	9.64	3.84	3,922,959	9.01

On December 31, 2004, the Trust prospectively applied a grant date fair value based method of accounting for compensation expense under the rights plan for all rights issued under the plan since inception. For 2003 and the first three quarters of 2004, the Trust had applied the intrinsic method because of significant measurement uncertainties associated with the fair value method. New measurement assumptions were developed in applying the fair value method that reduce these uncertainties and enable the company to begin applying this method.

The Trust uses the Black–Scholes option-pricing model to determine the estimated fair value of the unit rights issued subsequent to January 1, 2003. For the year ended December 31, 2005 the Trust recognized compensation expense included in the calculation of net earnings of $3.2 million (2004 - $0.2 million) using the following weighted average assumptions:

For the years ended December 31,

	2005	2004
Expected volatility	**37.1%**	39.9%
Annual distribution yield	**8.5%**	9.1%
Risk free interest rate	**3.3%**	3.4%
Expected life (years)	**3.5**	3.5

11. COMMITMENTS

The Trust has several operating lease agreements on buildings and equipment. The future lease obligations for the next five years are summarized below:

(thousands)	
2006	3,286
2007	3,203
2008	3,007
2009	2,441
2010	1,886

In 2005 Trinidad commenced its North American expansion through a commitment to construct 22 new diesel electric drilling rigs, which are expected to be deployed in Canada and the United States in the latter half of 2005 and into 2006. Total capital costs of construction are expected to be $315.0 million, of which $82.5 million has been paid as at December 31, 2005. Three rigs were completed and deployed in 2005. Each of these rigs are backed by take-or-pay contracts which provide for committed days and drilling rates over the next three to five years.

On January 17, 2006 Trinidad announced the construction of another 7 rigs to be deployed in Canada and the United States. Total capital costs are expected to be $78.0 million.

12. RECONCILIATION OF CASH AVAILABLE FOR DISTRIBUTION AND ACCUMULATED CASH DISTRIBUTIONS

For the years ended December 31,

(thousands)	2005	2004
Cash flow before change in non-cash working capital	**87,299**	38,906
Cash distributions paid and declared [(1)]	**51,905**	23,698
Funds retained for growth capital expenditures and future distributions	**35,394**	15,208
Accumulated cash distributions – beginning of year	**32,604**	20,944
Cash distributions paid	**45,198**	8,906
Distributions declared and payable at end of year	**6,707**	2,754
Accumulated cash distributions - end of year	**84,509**	32,604

(1) Distributions are comprised of $37.2 million related to interest expense and the remaining $14.7 million allocated to dividends and return of capital.

13. SEGMENTED INFORMATION

The acquisition of Cheyenne, which closed December 20, 2005, and the current rig construction program has diversified the Trust's operations from its primary geographic focus in Western Canada to include locations in the United States, including the Rocky Mountain region, Mid Continent region, and the Texas and Oklahoma region. This acquisition added additional rigs of varying depths and capabilities to the current drilling fleet operating in the Canadian market complementing the current drilling operations. Despite the similarities in the assets acquired, the increased management depth in the United States and the varying conditions between the Canadian and United States markets has resulted in management evaluating the Trust's performance on a geographically segmented basis.

For the years ended December 31,

(thousands)	2005	2004
Revenue		
Canada	**282,938**	138,477
United States	**5,394**	-
	288,332	138,477
Amortization		
Canada	**27,518**	14,708
United States	**968**	-
	28,486	14,708
Interest expense		
Canada	**5,600**	3,201
United States	**-**	-
	5,600	3,201
Income taxes		
Canada	**9,302**	4,104
United States	**301**	-
	9,603	4,104
Net earnings before income taxes		
Canada	**55,785**	24,894
United States	**1,245**	-
	57,030	24,894
Capital expenditures (including acquisitions and deposits)		
Canada	**135,859**	207,727
United States	**293,069**	-
	428,928	207,727

As at December 31,

(thousands)	2005	2004
Total Assets		
Canada	**558,665**	372,454
United States	**279,419**	-
	838,084	372,454
Goodwill		
Canada	**37,115**	9,806
United States	**42,314**	-
	79,429	9,806

DIRECTORS

Kevin A. Bennett
Independent Businessman
Calgary, AB

Naveen Dargan
Independent Businessman
Calgary, AB

Peter J. Gross
Independent Businessman
Calgary, AB

Michael E. Heier
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Ken Stickland
Executive Vice President, Legal
TransAlta Corporation
Calgary, AB

MANAGEMENT

Michael E. Heier
Chairman and Chief Executive Officer

Lyle C. Whitmarsh
President

Brent J. Conway
Chief Financial Officer

BANKERS

G.E. Canada
Commercial Finance
Calgary, AB

TD Canada Trust
Calgary, AB

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, AB

LEGAL COUNSEL

Blake, Cassels & Graydon LLP
Calgary, AB

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company
Calgary, AB

TSX Stock Exchange Listing
Stock Symbol: TDG.UN

CORPORATE OFFICE

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